

**Speech to Korean Chamber of Commerce and Industry**

***"Keeping U.S.-Korea Economic Relations on Track"***

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Thank you, Chairman Park, and members of KCCI, for inviting me back to meet with you again today.

You've asked me to speak to you today about the Korea-U.S. relationship, especially our business and economic relationship. It's been a little less than a year since I last had breakfast with you. Some of you may recall that at that time I spoke about "preparing for a new era of cooperation on the Korean Peninsula." In the 11 months since my last KCCI breakfast, there has been a great deal of diplomatic activity relating to North Korea. As we meet here today, representatives from the Republic of Korea, the United States, China, Japan, Russia, and the DPRK are in Beijing for the latest round of the 6-party talks. I'll touch on that topic a bit later.

But first, I'd like to talk more about economics, underscoring in particular the importance of keeping U.S.-Korea economic relations on track. When we use the term "on track" I think we all register an image of a railroad train proceeding steadily down its tracks. I'll come back to this railroad analogy later. On the U.S. side, we think that our bilateral trade and investment relationship continues to be generally on track, although we've come through some slow times lately with the global economic downturn of the past few years and a sluggish economy in Korea in 2003. We believe that we can do an even better job, as I will explain later.

Sometimes people ask me whether Korea and its economic health really matter to the United States. Let me assure you that they most certainly do. A strong and open Korean economy is good for the United States, just as a strong and open American economy is

good for Korea. We truly want Korea to be a successful and prosperous economy, serving as an important crossroads for the vibrant Northeast Asian region.

As you know, Korea is the 12<sup>th</sup> largest economy in the world and our 7<sup>th</sup> largest trading partner. In 2003, South Korea exported some \$194 billion worth of goods and services and imported \$179 billion. While U.S. investments to Korea slowed to \$1.2 billion in 2003 and that figure is less than in previous years, it adds on to a relatively high base, and the total stock of U.S. foreign direct investment in Korea has reached over \$27.5 billion. Meanwhile, Korean firms are busy investing overseas as well, with headline-grabbing moves to China, not to mention high profile investments in the United States, such as the Hyundai automotive plant recently opened in my home state of Alabama. Korean music, movies, and TV shows are hits throughout East Asia – exporting culture and ingenuity abroad. Back in Korea, well-made Korean movies now dominate in your theaters.

Still, as businessmen and women, you know that while we can learn from past success, it is even more important to plan for the future to keep our economic and commercial relationship on track. Today all countries are increasingly dependent on each other for their economic health. The concept of economic globalization, of looking outward and promoting exports, has been a key part of Korea's economic success since the 1960's. You adjusted again after the 1997-1998 crisis, making an impressive recovery. Korea is renowned worldwide for the boldness of its economic reforms introduced after the financial crisis.

Today there are new challenges. Older economic models do not work as well as they did in the past. We will all need to adjust and retool our economies once again. I can understand that Koreans are not satisfied with the less than three percent economic growth your country experienced in 2003. Most observers predict you will do much better in 2004, and perhaps beyond that, but in order to do well in the longer term, Korea and the United States will have to adapt to changing economic realities. Korea's is a much more developed economy than ever before, and you, like us, are facing new technological challenges that will change what business gets done, and how business gets

done, in our international marketplace. Government policy-makers and businessmen worldwide are learning about new challenges like “job-less recoveries,” “hollowing out of industries,” and “job exportation to cheaper labor countries” -- and Korea is no exception. It is gratifying to know that Korean leaders, both within government and without, understand and are tackling these challenges head on.

The Republic of Korea is pursuing a principled global strategy and has advanced its stature on the world stage by its recent actions. Since I last spoke to you, Korea has decided to contribute significantly to rebuilding and reconstruction efforts in Iraq and Afghanistan. And just two weeks ago, the National Assembly also voted to send some 3,000 additional military personnel to Iraq. On the economic front, Korean leaders appear to realize that Korea must pursue long-term trading partnerships with other countries. With the passage of the Korea-Chile Free Trade Agreement in the National Assembly, and with ongoing free trade negotiations for similar agreements with Singapore, Japan and other nations, Korea has again signaled that it is a progressive, outward-looking country. You are sending the message that your country recognizes the opportunities and challenges of global interdependence. We hope and expect that this will result in a more aggressive Korean stance toward the World Trade Organization talks as well.

On the Korean Peninsula, there remain many political challenges to face. The Six Party Talks are being held in Beijing at this very moment to address the issue of North Korea’s nuclear program. North Korea’s nuclear weapons program is a serious problem for the United States. For South Korea and the other states in this region, the North Korean challenge is even more serious, both politically and economically. That is why we are working closely with our regional partners to address this issue in a multilateral setting.

As far as the United States is concerned, the best solution to the nuclear problem is for North Korea to follow the example of Libya and completely, verifiably, and irreversibly dismantle its nuclear program. Not only does North Korea’s nuclear program threaten the interests of its neighbors, it also threatens its own interests. Libya has recognized that

its nuclear weapons program made it less secure, not more secure. We hope that Pyongyang will soon come to the same realization.

President Bush has made unmistakably clear that the United States has no hostile intent toward the DPRK. Indeed, Pyongyang's nuclear program is the single most important obstacle to improving its economy. Once North Korea has completely and verifiably abandoned its nuclear ambitions, the same multilateral approach that we have used in the Six Party Talks may also be able to coordinate efforts to bring North Korea's economy and society into step with its neighbors and community.

But please allow me to return to economic issues. Just as the Roh Administration is working with us to resolve the North Korean nuclear issue, it has also launched two ambitious plans to deal with the forces of globalization: one is transforming Korea into the "economic hub of Northeast Asia," and the other is achieving 20,000-dollar per-capita income by 2010. I would like to offer a few thoughts on how our friends in Korea might structure their business environment so that both foreign and domestic enterprises can thrive here, allowing Korea to fully harness the power of globalization for its own benefit.

Korea is already one of the world's information technology hubs, and now it aspires to be a more general business hub for the Northeast Asian region. We applaud this concept because creating a business hub in Korea will require policy changes that liberalize and open up Korea's economy and create more opportunities for U.S. companies. Our view is that rather than build a few free economic zones scattered around the Korean Peninsula, the best course would be to turn all of Korea into one big "free economic zone."

Frankly speaking, Korea's neighbors in Northeast Asia are not going to allow it to develop into "*the*" business hub of the region without a fight. If Korea wants to succeed as a regional hub, it needs to offer a predictable and stable business environment with a more transparent regulatory process, more open markets, improved corporate governance,

and reduced government interference in the market. It also needs to allow firms more flexibility in the hiring and firing of workers, and needs to seek more constructive relations between management and workers generally. These are problems that cut across economic sectors and discourage potential investors whether they are Koreans that might invest more in their own economy or Americans or other non-Koreans considering this country.

We know that organizations like the Korea Fair Trade Commission and President Roh's Regulatory Reform Committee, along with other groups, are committed to pursuing important structural economic reforms in Korea, and we heartily wish them success. These structural reforms will be key to maintaining growth as Korea's population ages and your economy matures.

The business and trade partnership between our two countries in the past has been a lot like building a railroad. We are used to overcoming obstacles. Working together we can deal with regulations that seem like mountains, find ways to re-route our economic railroad past business swamps, and learn to deal with yet-to-be-seen obstacles. We do need to keep things "on track."

As we meet here this morning, representatives of our two countries are also beginning the latest round of our Quarterly Trade Talks here in Seoul -- seeking to help keep the U.S.-Korea trade and business relationship "on track." One of the issues they will be discussing is government interference in setting technology standards -- to the ultimate detriment of Korean consumers. We believe the market should decide which standards and technologies succeed, and we consider the adoption of single, mandatory technical standards to be a mistake for Korea or any other economy.

Another key issue our governments are discussing is protection of intellectual property rights. Just last month, the United States moved Korea from our intellectual property rights "Watch List" to the "Priority Watch List," due to our concerns about the lack of protection for the music industry in Korea and the piracy of videos and DVDs. We feel

that Korea needs to be particularly pro-active in providing adequate protection for intellectual property rights, precisely because your country has one of the highest levels of Internet penetration in the world. Such improved protection and enforcement will guard the legitimate interests of Korean as well as American rights holders.

As you know, transparency and consistency are tremendously important to expanding trade.

Ladies and Gentlemen: In April you will inaugurate your new high-speed train service to the south. This will be another positive reminder that Koreans continue to build this country at a very fast pace. When I ride that train for the first time, I will be thinking about Korea's achievements, but I will also be thinking about how we can continue to keep Korea-U.S. economic relations on a similar positive "track." Those of you who know me well know that on this subject, I am an optimist. Americans, like Koreans, like to roll up their sleeves and get to work when there is a job to do. We are not afraid of hard work. Korea and its economy matter to my country, and I promise from our side that the United States will work hard to strengthen and further improve our business partnership.

In closing, I would like to applaud the KCCI and other organizations like it that will help Korea continue to be the dynamic, innovative economy it is today. Together we can stay "on track." I wish you all the best of luck and much prosperity for the year ahead!

Thank you very much.

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